

# **TRADE AND AMERICAN NATIONAL SECURITY: THE CASE OF CHINA'S WTO ACCESSION**

The Olin Distinguished Lecture in National Security Issues

Ambassador Charlene Barshefsky  
U.S. Trade Representative

United States Military Academy  
West Point, New York

April 12, 2000

Good evening, everyone, and thank you, Colonel Jebb.

Let me also thank Superintendent Christman for inviting me to speak with you; and to the Cadets here today, let me begin with my personal appreciation for your choice of a career in the military. Our country, with all its responsibilities, needs the world's most dedicated and highly trained military more today than ever before. That is what people like the Superintendent have built; and it is what you, as the officer corps of the 21<sup>st</sup> century U.S. Army, will build for the next generation. For that you have my gratitude, and that of each member of our Administration.

This is an especially opportune moment for us to meet. This spring, as Congress considers China's accession to the World Trade Organization and permanent Normal Trade Relations, we face a decision which illustrates, as clearly as any in the past fifty years, the links between trade policy and national security. And this will be my topic tonight.

## **ONE-WAY CONCESSIONS**

In the most basic sense, of course, China's WTO membership and permanent NTR are technical trade issues. In these terms they present us with a clear choice:

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession. It secures comprehensive, one-way concessions, opening China's markets for services, industrial goods and agriculture. It strengthens our guarantees of fair trade, and our ability to enforce Chinese trade commitments. By contrast, we agree only to maintain the market access policies we already apply to China, and have for over twenty years, by making China's current Normal Trade Relations status permanent.

Permanent NTR is the only policy issue before Congress. Regardless of our decision, China will enter the WTO and retain its market access in America. The only question is whether, by making NTR permanent, we accept the benefits of the agreement we negotiated; or on the contrary, by turning away from permanent NTR, give these benefits to our trade competitors while American entrepreneurs, farmers and factory workers are left behind.

## **DEEPER IMPLICATIONS**

One might end a discussion of the WTO accession right there. From a purely trade policy perspective, it would not be wrong to do so. But this choice also has much deeper implications.

As you leave West Point, some of you will join the 36,000 servicemen and women in US Forces-Korea. Some will serve in Japan; some take part in exercises like Team Spirit in South Korea or Cobra Gold in Thailand; some help develop our Pacific strategies at the policy offices in the Pentagon. In every one of these fields, the attitude of China towards our country and our role in the Pacific will be of central importance to our country and to you personally.

China is the world's largest country. Over the past decade, it was the world's fastest-growing major economy. The future course of our relationship will thus have great bearing on American security and strategy in the 21<sup>st</sup> strategy. And today, as we all know, our relationship with China today is free neither of deep-seated policy disagreements nor moments of tension.

These are perhaps natural: we are great Pacific powers, and our governments reflect vastly different political systems and values. But to quote the classical Chinese poet Qu Yuan, writing in the 4<sup>th</sup> century B.C., such a relationship poses profound questions for future peace and stability across a vast section of the earth:

“Eagles do not flock like birds of lesser wing;  
thus it has been since ancient times.  
How is the round to fit with the square?  
How can different ways of life be reconciled?”

Such questions dominate our China debate today. As we consider them -- and as the Chinese watch our debates, and conduct their own -- many ask why we would proceed even with an entirely one-sided agreement while differences over human rights, security, and other topics remain. It is fair – in fact necessary – to judge the WTO accession in their light. And we can begin by tracing to its origins the institution China seeks to join.

## **TRADE IN AMERICAN POSTWAR STRATEGY**

Today's World Trade Organization has its roots in the foundation of the General Agreement on Trade and Tariffs, or GATT, in 1948. This was in turn one element in a larger response, conceived under Franklin Roosevelt and developed into concrete policies and institutions under President Truman, to the lessons of the Depression and the Second World War:

- Collective security, reflected by the United Nations, NATO, the Rio Treaty and our alliances with the Pacific democracies.
- Commitment to human rights, embodied by the Universal Declaration on Human Rights and then a series of more recent Conventions.
- Open markets and economic stability, with the creation of the IMF and World Bank on the

one hand, and the GATT on the other.

The trade element drew directly on the personal experience of Truman and his Allied colleagues. In the 1930s, they had seen their predecessors fail to resist a cycle of protection and retaliation, including the Smoot-Hawley Act in the United States and colonial preference schemes in Europe. That failure had cut trade by 70% in four years, deepening the Depression and contributing to the political upheavals of the era. Eighteen years later, they believed that by reopening world markets they could restore economic health and raise living standards; and in tandem with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

The work begun in 1948 has continued for 52 years; and the faith our postwar leaders put in freedom, open markets and the rule of law has been abundantly vindicated. In eight negotiating Rounds -- the most recent of which updated and modernized the GATT to create today's World Trade Organization in 1995 -- and as 112 new members joined the 23 GATT founders, we opened the closed markets of the Depression. We cut tariffs by 90% on average; and joined this with work on non-tariff barriers, agriculture, services, intellectual property, technical standards and dispute settlement. Still more recently, we concluded landmark agreements on information technology, basic telecommunications, financial services and duty-free cyberspace; and the work continues today, with the WTO's decision in February to open negotiations on agriculture and services.

The result has been a fifty-year economic boom, in which the world economy grew six-fold; per capita income nearly tripled; and hundreds of millions of families escaped poverty. America, as the world's largest exporter and importer, has benefitted perhaps most of all; but social progress worldwide has been broadly shared. Since the 1950s, world life expectancy has grown by twenty years, infant mortality dropped by two-thirds, and famine receded from all but the most remote or misgoverned corners of the world.

Thus, together with our military commitments in Europe and Asia on one hand, and growing respect for human rights and the rule of law on the other, the work of trade policy has helped to make the world substantially more prosperous, stable and peaceful; in other words, to bring the Four Freedoms Roosevelt defined as America's wartime aims -- freedom of religion, freedom of expression, freedom from want, freedom from fear -- closer to realization.

### **U.S. ASIAN POLICIES TODAY**

Our Asia policies today fully reflect the insights of postwar strategy. As a Pacific nation, we have a vital interest in an open, prosperous and stable region; and our economic policies join with our security policies and support for human rights to help us secure that interest. As Admiral Dennis Blair, the Commander-in-Chief of U.S. Pacific Forces, puts it:

“Prosperity gives people within a country, and countries within a region, greater stakes in each other's futures. Security, whether it is the rule of law within a country or peace

among countries, allows national economies to grow.”

- Our Pacific military presence, and our alliances with Japan, South Korea, Thailand, the Philippines, Australia and New Zealand, remain the region’s strongest guarantees of peace and stability.
- Our advocacy of human rights, over the years, has helped reformers bring democracy and stability to South Korea, Taiwan, Thailand, the Philippines and now Indonesia.
- Our support for IMF recovery programs in Southeast Asia, South Korea and Russia during the financial crisis, and our own commitment to open markets at home, helped guarantee these countries the resources and access to foreign markets necessary for rapid recovery, reducing the international tensions that can accompany economic suffering.
- And our trade policy is building a broadly more open region: a framework of open trade through the Asia-Pacific Economic Cooperation forum; market-opening and deregulation in Japan; reform and liberalization in ASEAN and South Korea; work toward normalized economic relations with Vietnam, Laos and Cambodia; and the economic opening and integration of China.

### **CHINA FROM REVOLUTION TO REFORM**

China has found economic integration in its own interest; but it has come to this point by a very different road.

With the Communist revolution in 1949, China shut the doors it had once tentatively opened to the world. Among its new leaders’ first steps were to expel foreign businesses from China, and to bar direct economic contact between Chinese private citizens and the outside world. Inside China were similar policies – destruction of private internal trading networks linking Chinese cities and villages, abolition of private property and land ownership, and of course suppression of any right to object to these policies. The rule of law vanished: between 1949 and 1957, the number of lawyers in China shrank by 70%; and in 1957, with the opening of the so-called “Anti-Rightist Campaign,” most remaining law offices were closed, lawyers arrested or sent to the countryside, and the Ministry of Justice itself abolished. And this had international effects as well: Asia’s largest nation had little stake in prosperity and stability -- in fact, saw advantage in warfare and revolution -- beyond its borders.

In essence, our postwar commitment to collective security, open markets and human rights made up a coherent vision of a peaceful and open world. And China’s rejection of these concepts in the Maoist era made up an equally coherent and consistent policy. Its economic isolation in the 1950s and 1960s can be separated neither from its diminishing space for individual life and freedom at home, nor its revolutionary role in the Pacific region.

China’s domestic reforms since the 1970s have helped undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home.

Reform has reversed the most damaging policies of the Great Leap Forward and Cultural Revolution era, abolishing rural communes and enabling private business to revive in villages and cities. A number of earlier policies, notably bans on foreign investment and private export trade, have been substantially relaxed although not abandoned entirely.

American trade policy over 30 years has complemented these policies, both to create trade opportunities for Americans and to support reform in China. This has been bipartisan and consistent, from the end of the trade embargo in 1972 under President Nixon, to our Bilateral Commercial Agreement and grant of Normal Trade Relations (then MFN status) in 1979 under President Carter; the renewal of NTR ever since; our support for China's APEC membership; and our most recent agreements on market access, intellectual property, textiles and agriculture.

## **RESULTS TO DATE**

Taken together, the results have been profoundly positive.

In an economic sense, domestic reform and opening to the world have helped 200 million Chinese men and women escape from poverty. This is an economic benefit for us as well, as demonstrated by our \$10 billion in export growth since the Commercial Agreement. But China's economic opening has helped to foster advances that go beyond material gain.

Within China, much of the political system remains repressive and authoritarian. This is detailed in comprehensive form by the State Department's Human Rights Report: it is why this month we are sponsoring a resolution in the UN Human Rights Commission condemning China's human rights record, and why we have sanctioned China as a "country of particular concern" under the International Religious Freedom Act.

But it is also fair to note that as reform has proceeded, respect for a number of basic rights and liberties cited in the Universal Declaration has grown. Examples include property rights, with farmers able to work their own land, entrepreneurs to start businesses, and families to pass on their property to their children; openness to information, with Chinese citizens able to listen to foreign radio and TV and more recently to visit foreign web-sites; and some aspects of freedom of association, as Chinese meet and exchange ideas with foreigners or people from Hong Kong and Taiwan.

And as China has opened its economy to the world, it has become a more integrated, responsible member of the Pacific community – and let me give you a very specific example. In 1997, South Korea and the ASEAN states were the market for \$22.3 billion worth of Chinese semiconductors, video CD players, rice, apparel and other goods. Setting Hong Kong aside, that is one dollar in six of China's exports to the world. These countries were also the source of \$6 billion in foreign direct investment in China, meaning a seventh of all the FDI China received that year. And this has implications not only for China's economy, but to our own vital interest in a peaceful and stable region – because 1997 was, of course, the year of the financial crisis.

A generation ago, China might have seen the event as a revolutionary opportunity. In 1997 its reaction was entirely different: the crisis was a threat to the export markets that support Chinese factories and farm income, and to the Asian investment that creates jobs and growth. The constructive and stabilizing policies China adopted through currency stability and contribution to IMF-led recovery programs, thus reflected basic self-interest. But in historic context, they enabled us to deal with the crisis primarily as an economic and humanitarian disaster, rather than a security crisis. And they are thus evidence of a change in China's role and views whose importance for American national security cannot be overstated.

## **PRESENT TRADE BARRIERS AND ECONOMIC CHALLENGES**

But as much as China has changed, reform remains incomplete.

Some policy legacies of the 1950s remain in force: bans on foreign participation in the information industries; control over economic contact with foreigners; and restrictions on the ability of both foreign and Chinese businesses to distribute their products and trade with one another. Others are only partly reformed – foreign companies may now invest in China, but lose the right to import the parts they choose and market their products as they see fit. Beyond this, China's trade barriers remain high, and are joined by newer industrial policies requiring investors to transfer technology, purchase parts only from Chinese sources, and so forth, which work together to block imports and force investment, employment and technology into China.

Thus our \$10 billion in export growth since 1980, while substantial, is far less than our export growth to Europe, Japan, South Korea, the ASEAN nations, Canada, Mexico, Taiwan or the Caribbean Basin over the same period. And China's external and internal trade barriers not only block American exports but – as China's senior leaders realize – have led to corruption and economic inefficiencies which threaten China's own prospects for sustainable growth, job creation and technological progress.

## **THE WTO ACCESSION**

And that brings us to the WTO. The agreement we reached last November on the terms of China's accession is the capstone on thirty years of work, helping both countries through commitments covering the range of industrial goods, services, farm products and unfair trade practices; and addressing all major barriers to American exports. Under its terms:

- China will cut industrial tariffs from an average of 24.6% in 1997 to 9.4% by 2005. It will eliminate all quotas and discriminatory taxes. And of critical importance, in virtually all products it will allow both foreign and Chinese businesses to market, distribute and service their products; and to import the parts and products they choose.
- In agriculture, on U.S. priority products China will cut tariffs from an average of 31% to 14% by 2004. China will expand access for grains and other bulk agricultural products, through tariff-rate quotas that offer dramatic new opportunities in these sectors. It will

end import bans, cap and reduce trade-distorting domestic supports, eliminate export subsidies, and base border inspections on science.

- In services, China's markets will open for distribution, telecommunications, banking, insurance, securities, professional, business and computer services, management consulting, motion pictures, environmental services, accounting, law, architecture, construction, travel and tourism, and other industries.
- And the agreement gives American firms and workers stronger protection against import surges and unfair trade practices. It addresses state enterprise policies, prohibits forced technology transfer as a condition of investment, and eliminates local content, offsets and export performance requirements. It provides, for 12 years, a special product-specific safeguard to address market-disrupting import surges from China. And it guarantees our right to use a special non-market economy methodology to address dumping for 15 years.

All these commitments are fully enforceable: through our trade laws; WTO dispute settlement; periodic multilateral review of China's adherence and multilateral pressure from all 135 WTO members; increased monitoring by the U.S., with the President's request for increased funding for China compliance and enforcement in his FY 2001 budget; and other mechanisms such as the special anti-dumping and anti-import surge remedies.

Finally, China's entry will facilitate the entry of Taiwan into the WTO, as Taiwan's new leadership has noted in its formal support for China's membership and normalized trade with the U.S.. Taiwan's accession will have substantial direct trade benefits for the US, as Taiwan is already a larger export market for us than is China. And the opening of both these economies, while we have no guarantees, may ultimately play some part in easing tensions in the Taiwan Strait.

## **PERMANENT NORMAL TRADE RELATIONS**

What is the next step? By contrast to China's historic set of commitments, our sole obligation is to grant China permanent NTR. If we fail to do so, we risk losing the full benefits of the agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement.

This, in terms of our policy toward China, is no real change. NTR is simply the tariff status we have given China since the Carter Administration; and which every Administration and Congress in the following 20 years has reviewed and found, even at the periods of greatest strain in our relationship, to be in our fundamental national interest.

Thus permanent NTR represents no essential change. But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the full benefits available in one another's markets. If Congress were to refuse to grant permanent NTR, our Asian, Latin American, Canadian and European competitors

will reap these benefits but American farmers, workers and businesses would be left behind.

## **WTO ACCESSION AND CHINESE REFORM**

And the costs of U.S. retreat at this most critical moment would go well beyond exports and trade.

Just as our role in the foundation of the GATT was closely linked with the Universal Declaration on Human Rights and our postwar alliances -- and just as China's economic isolation in the early years of the Cold War contributed to domestic repression and international upheaval - - China's WTO accession today is part of an American policy in which trade, human rights and security act upon and support one another. As even the brief review I have given indicates, China's commitments go well beyond reductions of trade barriers at the border. China will:

- For the first time since the 1940s, permit foreign and Chinese businesses to import and export freely from China.
- Reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services.
- Enable, again for the first time since the 1940s, foreign businesses to participate in information industries such as telecommunications, including the Internet.
- And subject government decisions in all fields covered by the WTO to impartial dispute settlement when necessary.

These commitments are a remarkable victory for economic reformers in China. They alter policies dating to the earliest years of the communist era. They give China's people more access to information, and weaken the ability of hardliners to isolate the public from outside influences and ideas. Altogether, they reflect a judgment -- still not universally shared in the Chinese government -- that prosperity, security and international respect will come not from the static nationalism, state power and state control China adopted after the war; but rather the economic opening to and engagement with the world and ultimately development of the rule of law inherent in the initiative President Truman began in 1948.

The WTO accession, therefore, has potential beyond economics and trade. It can serve as a foundation for the rule of law; and as precedent for willingness to accept international standards of behavior in other fields. That is why many Hong Kong and Chinese activists for democracy and human rights -- Bao Tong, jailed for seven years after Tiananmen Square; Martin Lee, the leader of Hong Kong's Democratic Party; Ren Wanding, a dissident who has spent years of his life in prison -- see WTO accession as China's most important reform in twenty years. It is why rejection of PNTR would be a blow to reform in China; and why support for WTO accession rests on a broader long-term commitment to human rights and freedoms, as well as new opportunities and strengthened guarantees of fairness for Americans.

## **WTO ACCESSION AND AMERICAN NATIONAL SECURITY**

And it is why WTO accession forms part of the answer to the profound question posed by Qu Yuan 2300 years ago, with respect to the ways in which our very different countries can find the accommodations necessary to peace and stability.

Our relationship with China remains marked by substantial disagreements. And when we disagree with China we must act with candor and firm assertion of our interests and values – as we have done when necessary with respect to Taiwan; as we are doing at the UN Human Rights Commission today. But this is only part of our approach. As Theodore Roosevelt said of his Open Door Policy to China in the first years of the 20<sup>th</sup> century:

“We must insist firmly on our rights; and China must beware of persisting in a course of conduct to which we cannot honorably submit. But we in our turn must recognize our duties exactly as we insist upon our rights.”

In this spirit, we recognize how important a stable and peaceful relationship with China is - for the Chinese, for the world, and for America -- and how fundamental is our responsibility to act upon areas of shared interest and benefit. We saw this responsibility clearly in the Asian financial crisis. We see it in the maintenance of peace on the Korean Peninsula, where some of today's Cadets will serve in a year or two; in the environmental problems of the Asia-Pacific; and for nearly three decades, we have seen it in trade.

Each step we have taken since the lifting of the trade embargo has rested on concrete American interests; helped to promote reform in China; and sped the integration of China into the Pacific economy. And in this context, the WTO accession takes on its full meaning.

No trade agreement will ever solve all our disagreements, but this will address many of them; and if we turn down a comprehensive set of one-way concessions, we make a very dark statement about the future possibility of a stable, mutually beneficial relationship with the world's largest country.

Such a statement would threaten our work on all the specific issues in our China policy agenda today -- from non-proliferation and arms control, to reducing tensions in Korea and South Asia.

It would complicate for the foreseeable future our existing Pacific alliances, as all of our Asian friends and allies would view rejection of PNTR as an unnecessary rejection of stable and constructive relations with their largest neighbor; and a turn away from the open, confident vision we have held for the Pacific over the years.

Over the long term, and perhaps most important, China -- seeing no economic reason for our decision -- would become more likely to read hostile intent into our every move; and this in turn would raise the prospect that our present disagreements and tensions will escalate into a broader confrontation of great consequence for every Pacific nation and for ourselves.

## CONCLUSION

But if we have the wisdom and confidence to make the right choice, before us is a remarkable opportunity.

Over three decades, trade policy has strengthened China's stake in prosperity and stability throughout Asia. Together with our Pacific alliances and military commitments; in tandem with our advocacy of human rights; and in the best tradition of postwar American leadership; it has helped us build a relationship with the world's largest nation which strengthens guarantees of peace and security for us and for the world. And WTO accession, together with permanent Normal Trade Relations, will be the most significant step in this process in many years.

That is the opportunity before us. These are the stakes as the Congressional debate begins. This is why the Administration is committed to permanent NTR on the basis of this historic agreement, and why we are so committed to success.

And this is where, with gratitude to Superintendent Christman for his invitation and to each of you for your time this evening, I will close this lecture.

Thank you very much.